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TRADE AND DEVELOPMENT BOARD
Ad Hoc Working Group on Expansion
of Trading Opportunities for
Developing Countries
Third session
Geneva, 28 February 1994

DRAFT REPORT OF THE AD HOC WORKING GROUP ON EXPANSION OF TRADING OPPORTUNITIES FOR DEVELOPING COUNTRIES ON ITS THIRD SESSION

Held at the Palais des Nations, Geneva,
from 28 February to 4 March 1994

Rapporteur: Mr. Dietmar-Gert Lackner (Austria)

AGENDA ITEMS 1, 2 AND 3

Note for Delegations

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments - to be submitted in English or French - should be communicated by Friday, 11 March 1994 at the latest to:

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INTRODUCTION

1. The Ad Hoc Working Group on Expansion of Trading Opportunities for Developing Countries held its third session at the Palais des Nations, Geneva, from 28 February to 4 March 1994. In the course of the session, the Ad Hoc Working Group held ..... plenary meetings.

Opening statements

2. The **Chairman** drew attention to the work programme of the Ad Hoc Working Group, which calls for the Group to take into account global trends in the world economy in its examination of ways to expand the trading opportunities of developing countries. At its meeting on 16 December 1993, the Bureau of the Ad Hoc Working Group agreed that it would be desirable to address the subject of global trends at the Group's third session. The Bureau also agreed that it would be useful to invite a panel of experts to assist the Group in its analysis of global trends. In order to constitute such a panel, the Bureau agreed that the Chairman should request member States of the Ad Hoc Working Group to include relevant experts in their delegations to the third session. Accordingly, the Ad Hoc Working Group would devote a portion of the present session to a consideration of global trends and issues affecting trading opportunities of developing countries, including the panel discussion.

3. The **Deputy to the Secretary-General of UNCTAD** welcomed all delegations and guests on behalf of the Secretary-General. The Ad Hoc Working Group was at a critical juncture, he observed, because it had only a short period in which to carry out its assigned tasks and also because of its responsibility to contribute to the review to be conducted by the Trade and Development Board midway between Conferences, as agreed at UNCTAD VIII. The latter task involved a review and evaluation of the UNCTAD work programme. To this end, not only the Board itself but each of its subsidiary bodies was expected to assess the extent to which effect had been given to the relevant recommendations of UNCTAD VIII and to consider such further action as might be appropriate, making the outcome of these assessments available to the mid-term review to be conducted at a resumed session of the Board, scheduled to take place from 25 to 27 May 1994. Preliminary consideration would be given to this matter during the second part of the Board's fortieth session, from 18 to 29 April 1994. In keeping with this timetable, the President of the Board had invited all Chairmen of subsidiary bodies to prepare, in consultation with representatives of States members, an assessment for prompt submission to the Secretary-General of UNCTAD in his capacity as Chairman of the Informal Working

Group charged with preparations for this review. The President of the Board had also stressed that the assessment should be as concise and focused as possible. The success of the mid-term review would depend in large measure on these contributions.

4. As for the implementation of the work programme itself, the numerous presentations on national experience transmitted by Governments for consideration under item 3 (a) of the agenda amply demonstrated the support given to the effort under way aimed at the expansion of trading opportunities for developing countries. Likewise the reports by the UNCTAD secretariat, covering regional integration arrangements, environmental measures and technical assistance, which were before the Group would facilitate discussion on the issues raised under items 3 (b) and (c) of the agenda. A further aspect of the work programme involved analysing the world economy with a view to determining global trends. To assist the Group with the latter endeavour, a high-level panel of experts would lead and participate in the discussions.

Chapter I

CONSIDERATION OF ISSUES ARISING FROM THE WORK PROGRAMME OF THE AD HOC WORKING GROUP

(a) Country presentations of national experience (export capabilities, market opportunities, export promotion and marketing)

(b) Market opportunities (regional integration arrangements, environmental measures)

(c) Technical cooperation

(Agenda item 3)

5. For its consideration of this item, the Ad Hoc Working Group had before it the following documentation:

"Market opportunities (environmental measures, structural adjustment policies, RBPs)", report by the UNCTAD secretariat (TD/B/WG.4/6)

"Market opportunities (trade measures, implications of regional integration arrangements)", report by the UNCTAD secretariat (TD/B/WG.4/7 and Corr.1)

"Technical cooperation for the expansion of trading opportunities for developing countries", report by the UNCTAD secretariat (TD/B/WG.4/10)

"Environmental considerations in trade promotion and export development", note by the International Trade Centre UNCTAD/GATT, (TD/B/WG.4/Misc.24)

"Executive summary of the study on foreign direct investment and exports of manufactures for developing economies", note by the UNCTAD secretariat (TD/B/WG.4/CRP.2)

Country presentations from Bolivia (TD/B/WG.4/Misc.2), Turkey (TD/B/WG.4/Misc.3), Panama (TD/B/WG.4/Misc.4), Ecuador (TD/B/WG.4/Misc.5 and Corr.1), Oman (TD/B/WG.4/Misc.6), Benin (TD/B/WG.4/Misc.7), Colombia (TD/B/WG.4/Misc.8), Germany (TD/B/WG.4/Misc.9), Brazil (TD/B/WG.4/Misc.10),

Republic of Korea (TD/B/WG.4/Misc.12), Switzerland (TD/B/WG.4/Misc.13), United States of America (TD/B/WG.4/Misc.14 and Add.1), Nepal (TD/B/WG.4/Misc.15), Finland (TD/B/WG.4/Misc.16), Japan (TD/B/WG.4/Misc.17), India (TD/B/WG.4/Misc.18), France (TD/B/WG.4/Misc.19), Mexico (TD/B/WG.4/Misc.21), China (TD/B/WG.4/Misc.22), Norway (TD/B/WG.4/Misc.23), Russian Federation (TD/B/WG.4/Misc.25), Romania (TD/B/WG.4/Misc.27), ACP (TD/B/WG.4/Misc.28), Indonesia (TD/B/WG.4/Misc.29).

6. In introducing this item, the **Director of the International Trade Division** called attention to the documentation which had been prepared to assist the Ad Hoc Working Group in its discussions. Chapter II of the report dealing with regional integration arrangements (TD/B/WG.4/7) examines the possible implications of major regional integration arrangements in terms of the export market opportunities of developing countries. The effects of such groupings on the trading opportunities of developing countries participating in them have been evaluated along with the effects on those remaining outside the arrangements. The report also analyses the extent to which the improved productivity and efficiency of producers inside groupings may render competition more difficult for groups or world markets. As for environmental measures, he recalled that the Ad Hoc Working Group had decided at its second session to continue discussion on this matter at the third session, on the basis of the report TD/B/WG.4/6. Further to this subject, cooperation on eco-labelling would be reported on in due course. Moreover, the International Trade Centre UNCTAD/GATT (ITC) had most kindly prepared a note entitled "Environmental considerations in trade promotion and export development" (TD/B/WG.4/Misc.24) which would be introduced by the ITC representative.

7. The report TD/B/WG.4/7 also takes up the issue of trade measures as a factor determining the export possibilities for developing countries. In accordance with Recommendation 1 endorsed by the Ad Hoc Working Group at its second session, the results of the Uruguay Round with a major bearing on this issue will be considered at the fourth session of the Ad Hoc Working Group scheduled to take place from 4 to 8 July 1994.

8. With respect to sub-item 3 (c) of the agenda, the report on technical cooperation prepared by the UNCTAD secretariat (TD/B/WG.4/10) underlined the needs and requirements of developing countries for technical assistance with respect to three areas: (a) expanding export capabilities; (b) strengthening investment environments to attract FDI; and (c) strengthening institutional capacities for economic policy-making and management. The paper had also identified the priority

needs of developing countries. In this connection he drew special attention to paragraphs 51 to 53 highlighting the problem of adequacy of resources for technical cooperation. In closing he expressed appreciation to UNIDO, FAO and ITC for undertaking to share their valuable ideas on technical assistance.

[to be completed]

Chapter II

PROCEEDINGS OF THE ... (CLOSING) PLENARY MEETING

[to be completed as appropriate]

Chapter III

ORGANIZATIONAL MATTERS

A. Opening of the session

6. The third session of the Ad Hoc Working Group was opened on 28 February 1994 by the Chairman.

B. Election of officers [1]

(Agenda item 1)

7. At its 7th (opening) plenary meeting on 28 February 1994, the Bureau of the Ad Hoc Working Group was constituted as follows:

Chairman:	Mrs. Magda Shahin (Egypt)
Vice-Chairmen:	Mr. I. Kinnas (Greece) Mr. P. Hutabarat (Indonesia) Mr. C. Sinencio (Mexico) Mr. Y. Afanassiev (Russian Federation) Mr. H. Dzvimbo (Zimbabwe)
Rapporteur:	Mr. Dietmar-Gert Lackner (Austria)

C. Adoption of the agenda and organization of work

(Agenda item 2)

8. At its 7th (opening) plenary meeting on 28 February 1994, the Ad Hoc Working Group adopted its provisional agenda (TD/B/WG.4/9) as follows:

1. Election of officers
2. Adoption of the agenda and organization of work

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[1] In accordance with the decision taken by the Trade and Development Board at the first part of its thirty-ninth session, the officers elected at the first session of the Ad Hoc Working Group on Expansion of Trading Opportunities for Developing Countries are to remain in office for the duration of the life of the Ad Hoc Working Group. In view of the replacement of some officers at the second session, the elected officers of the Working Group are currently as indicated.

3. Consideration of issues arising from the work programme of the Ad Hoc Working Group:

   (a) Country presentations of national experience (export capabilities, market opportunities, export promotion and marketing)

   (b) Market opportunities (regional integration arrangements, environmental measures)

   (c) Technical cooperation

4. Provisional agenda for the fourth session of the Ad Hoc Working Group

5. Other business

6. Adoption of the report of the Ad Hoc Working Group to the Trade and Development Board, fortieth session, second part (resumed), mid-term review.

D. Provisional agenda for the fourth session of the Ad Hoc Working Group

(Agenda item 4)

[to be completed]

E. Other business

(Agenda item 5)

[to be completed]

F. Adoption of the report of the Ad Hoc Working Group

[to be completed]

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Item 3 of the agenda

MAIN POINTS MADE IN THE INFORMAL HIGH-LEVEL PANEL DISCUSSION ON GLOBAL TRENDS IN THE WORLD ECONOMY AND THEIR IMPLICATIONS FOR THE TRADING OPPORTUNITIES OF DEVELOPING COUNTRIES

(Agenda item 3)

Summary prepared by the UNCTAD secretariat

1. The Ad Hoc Working Group held informal discussions on the global trends in the world economy and their implications for trading opportunities of developing countries. These discussions were preceded by presentations on the subject by invited experts. The issues put forward for discussion by the Chairman concerned the recent performance and prospects for the world economy, the factors affecting the growth and trade prospects of developing countries and the policy implications. The following paragraphs summarize the main points made by the panellists and the participants.

A. Outlook

2. There are a number of encouraging factors operating in the world economy. Consequently, the outlook facing the developing countries for their growth and exports expansion over the next decade was brighter than that of the 1970s and 1980s. Over the past three or four years, developing countries had been growing at a rate of 4.5 per cent a year and had thus fared much better than developed countries, thanks to a combination of good policies, low interest rates, a surge

in capital inflow and, more recently, removal of the uncertainty surrounding the Uruguay Round. This outlook was not, however, without risks, stemming from a number of factors. First, the predicted economic performance of developing countries would vary significantly, leading to a widening gap among these countries; secondly, the international economic climate could take a turn for the worse. Furthermore, because of structural changes in the world economy, the trading environment was becoming more competitive. Lastly, notwithstanding the successful conclusion of the Uruguay Round, protectionist pressures could re-emerge if the growth in OECD countries were to falter.

3. In the coming years growth in individual developed countries was likely to be better than in the past three years. OECD countries were expected to grow at 2.7 per cent a year. There was also a consensus that interest rates would probably stay low in comparison to past trends - possibly some 2 percentage points lower than in the 1980s. Prospects were that inflation would remain low. The real commodity prices with cyclical recovery were expected to stabilize in the next few years. Many developing countries had launched bold economic reforms including unilateral trade liberalization. Finally, there had been a surge in private capital flows to developing countries which had trebled in the past three years. Qualitatively different from those of the 1970s, these flows were more sustainable as they depended on the policies pursued by individual developing countries. All these positive developments would have beneficial implications for the trading opportunities of developing countries.

4. Moreover, studies showed that the conclusion of the Uruguay Round would add 1 per cent a year to world income in 2005 or $200 to $300 billion, with a third going to developing countries. This will give added impetus to growth in world trade which was an important determinant of developing countries' performance.

5. Although the perspective for the developing countries as a whole was quite promising, prospects for growth of individual developing countries would vary from region to region. The prospects for African countries were unfortunately less favourable. The slow progress of these countries had prevented them from integrating themselves into the world economy. These countries needed help in introducing the necessary domestic reforms. For this endeavour debt relief was important. There was also a need for these countries to find ways to reduce macroeconomic instability.

6. On the positive side, there had been a substantial turnaround in the economies of the Latin American countries in the 1980s, as a result of the unilateral liberalization efforts made by these countries. The most encouraging positive trend was the dynamic growth of the East Asian countries. Whereas in the past the world economy had been characterized by growth poles - namely in Western Europe (in particular Germany) the United States and Japan - there was now an area that was growing faster than the rest of the world, by the rate of at least 8 per cent per annum. Some of the East Asian countries had become net capital exporting countries, although this surplus capital was invested mostly in the neighbouring countries. Closer cooperation in trade and investment among developing countries held the promise of their new dynamic growth as well.

B. The problem of commodities

7. The most important negative trend over the past decade was the downward trend in real prices of commodities, a trend unprecedented in the twentieth century. The majority of developing countries, particularly those of Africa, were heavily dependent for economic development on the sale of primary commodities. Declining real prices of commodities resulted in enormous losses in export earnings. In the early 1990s, these losses had amounted to US$50 billion a year, an amount exceeding total ODA flows to all developing countries. This was one of the major reasons for the big increase in debt of low-income countries. Although it was important to avoid generalizations, the trend in the commodity situation could be attributed to three factors. First, some commodity markets were in persistent oversupply (for example, cocoa, coffee, tea, etc.). Secondly, where there was no oversupply, there were enormous fluctuations in prices, and hence in export earnings. A third factor was the displacement of primary commodities by synthetic materials. A logical solution in the short-term to the situation of oversupply was supply management, a policy actively pursued by developed countries, for example in agriculture. One reason why commodity agreements had failed to stabilize commodity prices was that they were not designed to handle a situation of sharply declining prices. Supply management would reduce fluctuations to a reasonable amount. The effect of intense competition from synthetics could be alleviated through a programme of research for better utilization of natural raw materials.

8. In the long-term, a combination of supply management and diversification was needed. However, many developing countries did not possess the necessary financial resources to engage in diversification programmes. Cooperation and support by the international community was therefore urgent in this regard.

9. The barriers to exports of processed commodities even after the Uruguay Round posed another limitation to the export prospects of developing countries. The deflationary biases in the international monetary system put pressure on developed countries to reduce their imports and increase their exports. Pressure should be brought to bear on surplus capital countries to expand their imports.

C. Regional integration

10. The prospects for trading opportunities were also affected by developments in regional integration. Contrary to the inward-looking South/South orientation prevailing in the 1960s, there was now a new trend of regionalism with an outward-looking North/South orientation. This new regionalism had a more positive impact for the opening of markets because negotiations took place across-the-board rather than item-by-item, as under multilateral trade negotiations, which in the past had neglected the dismantling of non-tariff barriers. However, this trend ran the risk of culminating in three trading blocs, putting countries outside these blocs at a great disadvantage.

D. Transfer of technology and investment flows

11. Foreign direct investment (FDI) and globalization of production had made a great impact on prospects for trading opportunities. In 1992, out of US$170 billion of FDI, $70 billion went to developing countries, most of which, however, taking place in 10 of these countries. For the other developing countries, FDI as a share of total investment is on the increase.

12. In 1992, foreign production of transnational corporations (TNCs), amounting to about US$5 trillion, was greater than world exports which are around US$5 trillion. The capacity to operate on a world-wide scale made TNCs an efficient allocator of resources. The key development in the last ten years had been the movement towards integrated international production systems or what is also called a movement towards globalization. Liberalization of trade and investment facilitated the transfer of technology while the emergence of information technology made management possible on a day-to-day basis. One important implication of this was that within a corporate network any part of the value-added chain could, in principle, be undertaken anywhere in the world. One-third of private productive assets world-wide were potentially amenable to integrated international production.

13. FDI implied control of assets abroad, not only of equity but also management. Countries wishing to attract foreign investment should have an open economic framework, that is, one that was stable and predictable and based on such standards as national treatment, arbitration, transfer of earnings, etc. This increased the need for Governments to be pro-active in a number of areas. First, the enabling framework should go beyond liberalization, for example, increasing certain norms as far as treatment of foreign workers was concerned, creating the infrastructure for domestic production, etc. Secondly, to attract inward investment, concrete possibilities should be offered, as for example of Swissair's transfer of its accounting department to India. Fiscal incentives did not seem to play a major role. Thirdly, countries should keep in mind that FDI in trade and technology were all part of the same package. The decision on where to locate depended on an overall strategic preference of companies for which Governments needed to devise a holistic approach. Fourthly, inward investment was not the only way for development to proceed. Proper conditions should also be devised to allow enterprises to become active internationally through outward investment.

E. Countries in transition

15. Eastern European countries in transition to market economies had gone through a period of deep recession. In 1993, the overall GDP of Eastern European countries further fell by 2 per cent, compared to the 8 per cent drop of the previous year. The situation was worse in the former Soviet Union, where the decline amounted to 20 per cent. There was, however, a slow and sluggish recovery in certain countries in transition.

16. The trade performance of these countries had taken a sharp turn away from intra-Eastern European trade which had collapsed, towards a substantial expansion with respect to OECD countries. The trade with developing countries fell sharply in 1990-1992 and was diverted to OECD countries. In fact the shares of developing countries fell from 10-20 per cent to less than 10 per cent. There were several reasons for this fall: (a) private sector preference to trade with neighbouring countries because of lack of finance, established contacts, etc.; (b) lack of institutional infrastructure for exports; in the past trade exports were supported by large State credits, buttressed by distribution networks; (c) the deep recession had affected the structure of imports. There was a rapid expansion of imports of consumer and capital goods from developed countries, whereas imports of intermediate products which came mostly from developing countries suffered the most

because of the recession; (d) finally, both groups of countries suffered from debt-burden problems.

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Agenda item 4

PROVISIONAL AGENDA FOR THE FOURTH SESSION OF THE AD HOC WORKING GROUP

Draft provisional agenda

1. Election of officers

2. Adoption of the agenda and organization of work

3. Consideration of issues arising from the work programme of the Ad Hoc Working Group:

   Results of the Uruguay Round and their effects on the trading prospects of the developing countries, including identification of opportunities arising from the reduction of tariffs and non-tariff measures on products of export interest to them

4. Other business

5. Adoption of the final report of the Ad Hoc Working Group to the Trade and Development Board.